

Incentivizing Commercial Office Space Development:

From Idea to Implementation *Substitute House Bill 1746*

August 8, 2019

Contact:

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Introductions

- Elly Walkowiak, City of Tacoma
*Assistant Director, Community and
Economic Development Department*
- Briahna Murray, Gordon Thomas Honeywell
Government Affairs
Vice President

Presentation Overview

- Conceptual idea
- Development of legislation
- Legislative process and advocacy effort
- Implementation



Conceptual Idea

- Economic diversification
- Family-wage jobs
- Marketable office space



Urban Center Population Growth

Disproportionate population growth across Washington's urban centers.

City	Census 2010	OFM 2015	Change 2010-2015	% Change 2010-2015
Seattle	608,660	662,400	53,740	8.8%
Tacoma	198,397	202,300	3,903	2.0%
Everett	103,019	105,800	2,781	2.7%
Spokane	208,916	213,100	4,184	2.0%
Vancouver	161,791	170,400	8,609	5.3%

City Population Growth Within Counties

Population densifying dramatically in Seattle; sprawl occurring in other urban counties.

City/County	City Change 2010-2015	County Change 2010-2015	City Change As % County Change 2010-2015
Seattle/King	53,740	121,551	44.2%
Tacoma/Pierce	3,903	34,895	11.2%
Everett/Snohomish	2,781	44,265	6.3%
Spokane/Spokane	4,184	17,089	24.5%
Vancouver/Clark	8,609	26,457	32.5%

Urban County Employment Growth

Disproportionate employment growth across Washington's urban counties.

County	OFM 2015 State Population	% OFM 2015 State Population	ESD 2013-2018 State Employment Growth	% 2013-2018 State Employment Growth
King	2,052,800	29.1%	145,800	44.3%
Pierce	830,120	11.8%	32,000	9.7%
Snohomish	757,600	10.7%	23,000	7.0%
Spokane	488,310	6.9%	22,700	6.9%
Clark	451,820	6.4%	22,400	6.8%

Washington State Population: 7,061,410 (OFM 2015)

Washington State 2013-2018 Projected Employment Growth: 328,900 (ESD)

Urban County Median Wage Comparison

Median wage of State higher than several urban counties.

County	2014 ESD State Median Wage/ Hour	2014 ESD County Median Wage/ Hour	Difference Between State and County Median Wage/Hour
King	\$22.61	\$27.82	+\$5.21
Pierce	\$22.61	\$20.72	-\$1.89
Snohomish	\$22.61	\$25.40	+\$2.79
Spokane	\$22.61	\$19.21	-\$3.40
Clark	\$22.61	\$20.32	-\$2.29

Insight Into Employment Disparity

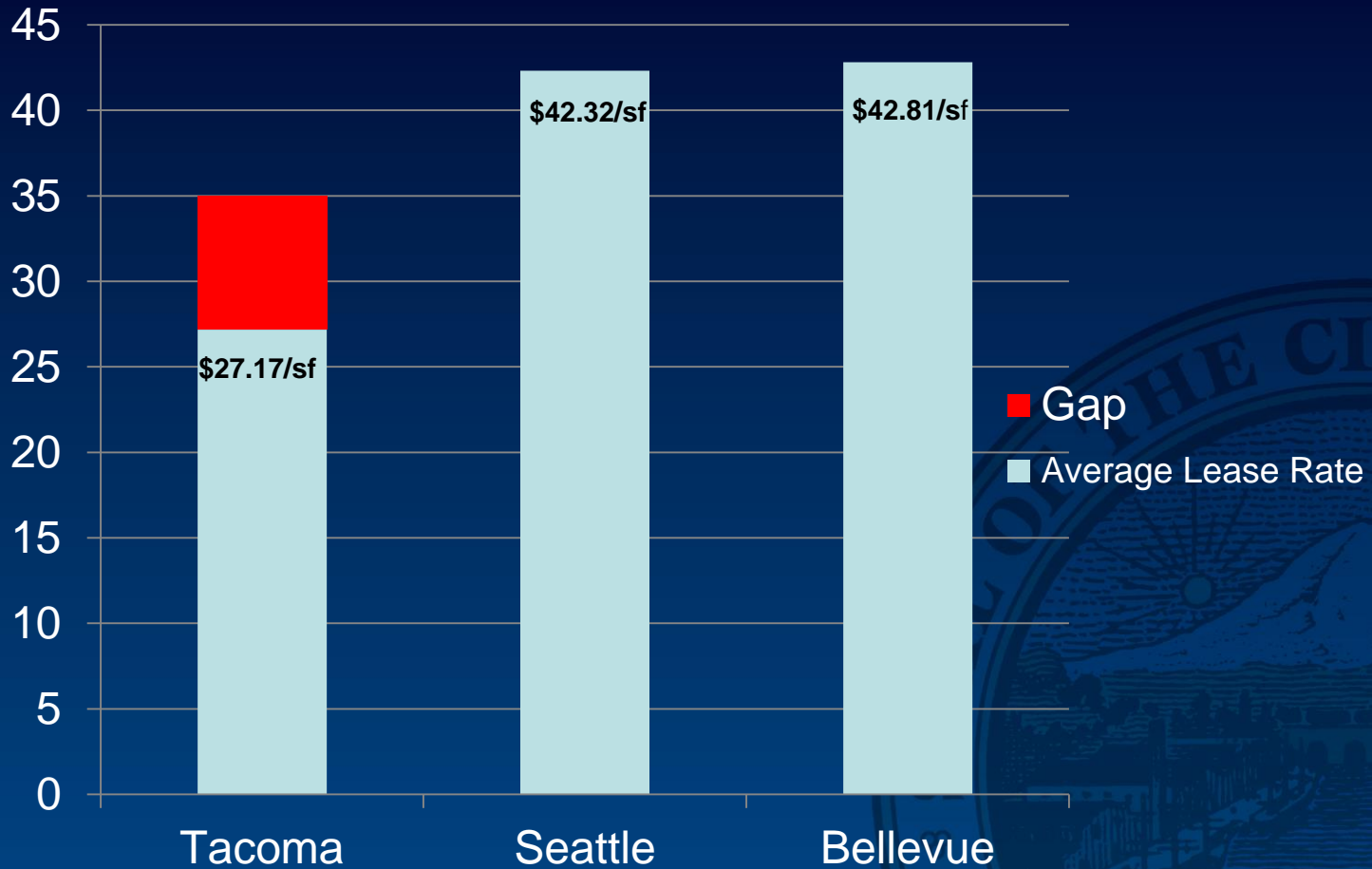
- Concentrated growth in Seattle area leads to:
 - Increased traffic congestion, especially along I-5
 - Extends commute times which amplifies carbon footprint producing more greenhouse gases
 - Strains public infrastructure necessitating State and regional infrastructure investment to exceed \$20 billion within the next decade

Challenges for Urban Centers Outside King County

- No new private construction of Class A office buildings outside King County since 2001
- Little demand to build new office space with infrastructure concentrated in King County
- Costs to build new office space are relatively similar across urban centers while rents are significantly lower outside King County

ROI Less in Tacoma

Sq. Ft. Cost



Minimum projected \$7.50/sf lease rate gap in Tacoma.

Development of Legislation

- Started in 2017 – took three legislative sessions and a political shift to pass the legislation
- What you introduce is not necessarily what you get:
 - Department of Revenue feedback
 - From exemption to reinvestment funds
 - Part of the solution, not the entire solution
 - 5-year “claw back” provision
 - Impact on housing, child care centers, etc.

Legislative Process and Advocacy Effort

- Bipartisan effort
- Expanding the number of cities
- Chamber support – more than just a letter
- Commercial development community
- Letter of Support from potential developers
- And, WEDA – thank you!

Law Effective July 28, 2019

Applies to cities located in counties with less than 1.5 million residents (everywhere but King County)

- City enacts an ordinance establishing a commercial office space development area(s)
- Up to 25% of the assessed valuation of the city may be included
- Area must be within an urban center

Law Effective July 28, 2019

- At least 50,000 square feet and at least 3 stories
- Development must:
 - Have close access to public transportation and freeways, managed professionally, offer amenities
 - Family wage job is a minimum of \$18/hour
 - Can be mixed-use (and used in conjunction with the multifamily property tax exemption and other tools)

Law Effective July 28, 2019

- Two incentives:
 - Local sales and use tax remittance
 - Local property tax reinvestment

Law Effective July 28, 2019

- Qualifying project:
 - New construction
 - Rehabilitation
 - Excludes land, residential and non-commercial uses

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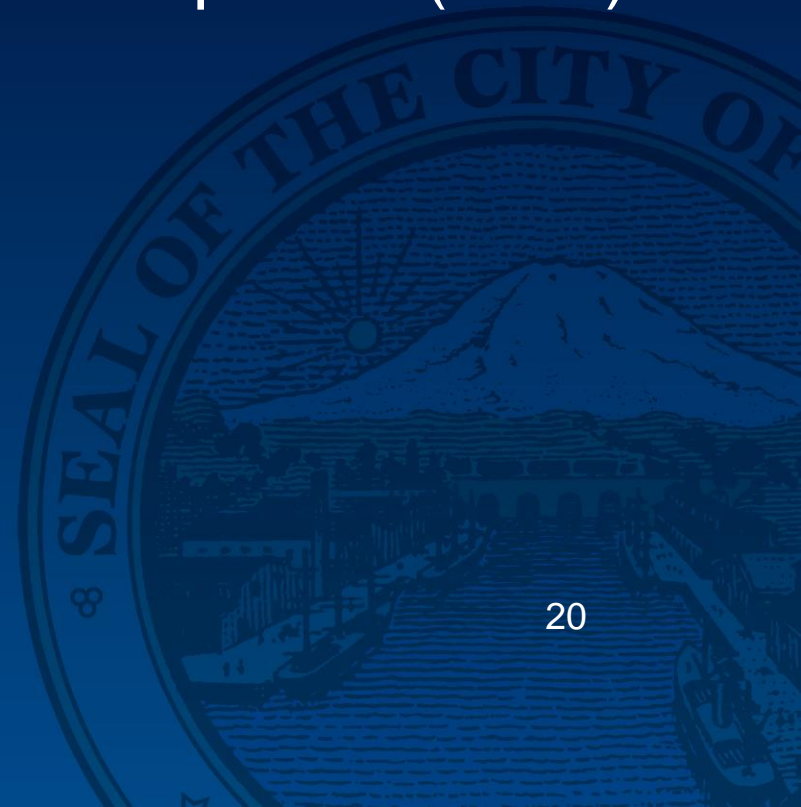
- Funding can be invested in:
 - Streets, roads, bridges, and rail infrastructure
 - Water and sewer systems
 - Sidewalks, streetlights, landscaping and streetscaping
 - Parking, terminal and dock facilities
 - Park and ride facilities
 - Park/recreational areas and environmental remediation
 - Stormwater and drainage
 - Seismic improvements to buildings for historic buildings
 - Electric, gas, fiber, and other utility infrastructure
 - Providing maintenance and security for common or public areas

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- Statute expires on December 31, 2028
- Joint Legislative Audit Review Committee report is required
- If we want to keep the tool, need to use it responsibly and record successes and failures

Implementation: City of Tacoma

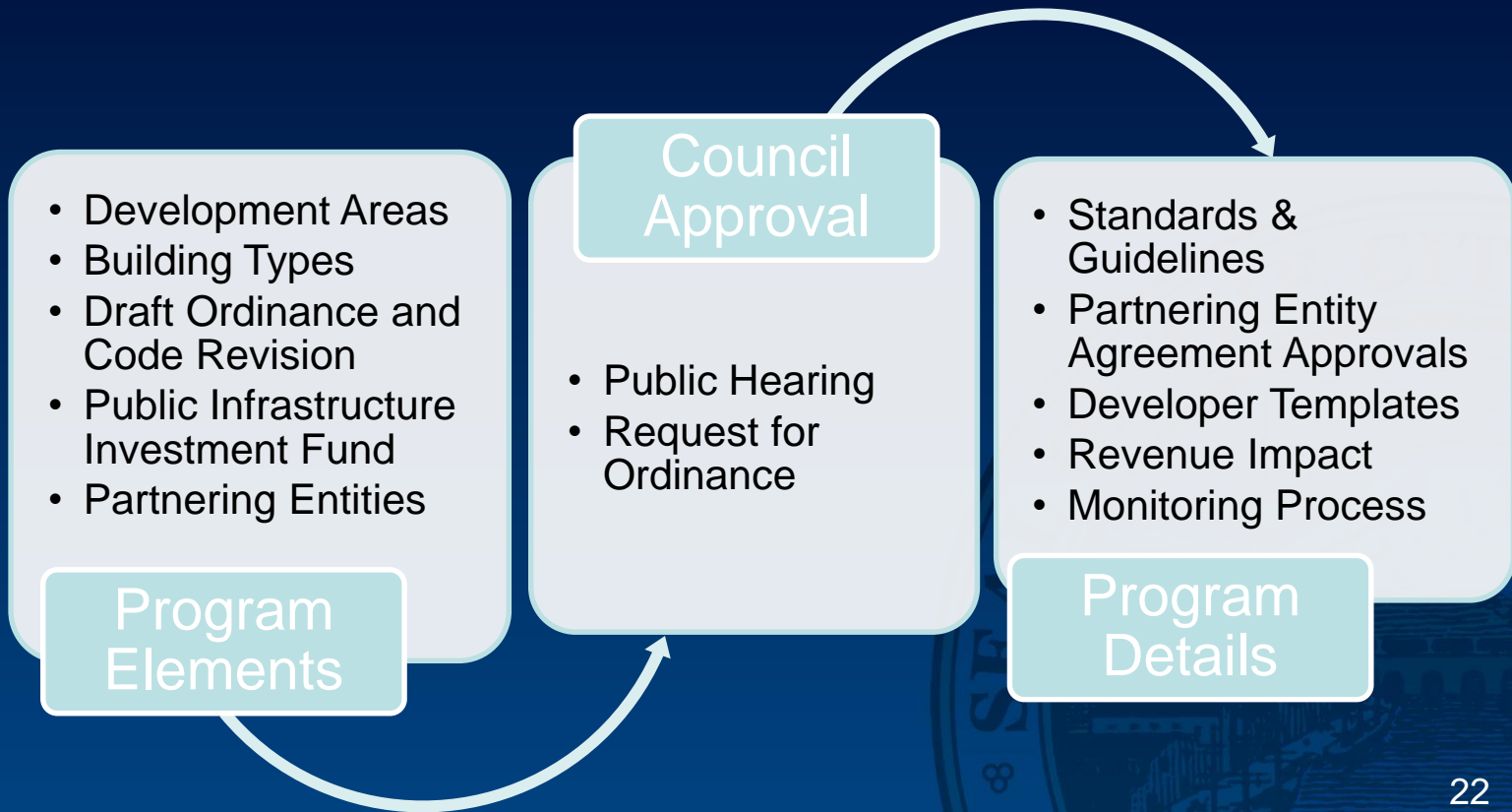
- Staff team
 - Community & Economic Development (CED)
 - Legal
 - Finance
 - Government Relations
 - Planning
 - Public Works



Implementation: City of Tacoma

- Milestones
 - Designate commercial office space areas
 - Define quality buildings
 - Model financial impacts
 - Discuss program with other taxing entities
 - Complete template applications/agreements
 - Hold public hearing
 - Seek final approval of Ordinance

Implementation Process: City of Tacoma



Implementation: City of Tacoma

Potential

North Downtown Subarea
(11.11% Total Assessed Value)

South Downtown Subarea
(4.59% Total Assessed Value)

Hilltop
(1.73% Total Assessed Value—
excluding hospitals)

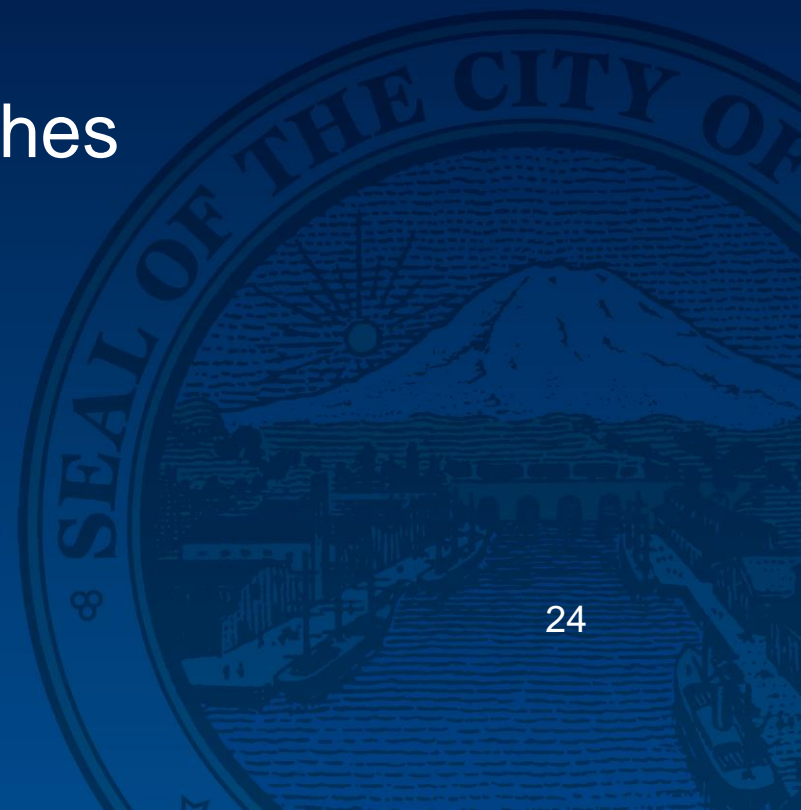
Tacoma Mall Subarea
(7.51% Total Assessed Value)

Mixed Use Centers; Port



Implementation: City of Tacoma

- Quality buildings
 - High quality standard finishes
 - Modern systems
 - Good accessibility



Implementation: City of Tacoma

- Financial impacts
 - City portion of sales and use tax: 1.00%
 - City portion of property tax: 2.565%

Implementation: City of Tacoma

- Additional considerations
 - Commercial office incentive alone will not address financial gap
 - Layering incentives are required for new development and rehabilitation
 - Opportunity Zones
 - Historic tax credits
 - Local infrastructure fund
 - Assist in strengthening market demand

Implementation: City of Tacoma

- Next steps
 - Reach out to other local jurisdictions to request participation
 - Innovate alternate approach based on existing authority
 - Develop program and application process
 - Hold public hearing; seek Council approval
 - Market incentives for office development

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